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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS**DOCKETED**

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

SEP 27 2007

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY FOR AN ORDER
AUTHORIZING THE EXECUTION OF A NEW
LOAN AGREEMENT OR AMENDMENT TO AN
EXISTING LOAN AGREEMENT.

DOCKET NO. W-01445A-07-0238

DECISION NO. 69925**ORDER**

Open Meeting
September 18 and 19, 2007
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. Arizona Water Company ("AWC" or "Company") is an Arizona Corporation that owns and operates water systems providing water service to approximately 73,000 customers located in Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal and Yavapai Counties in Arizona, pursuant to authority granted by the Commission.

2. AWC is a wholly owned subsidiary of Utility Investment Company, which is a wholly owned subsidiary of United Resources, Inc.

3. AWC charges rates approved in Decision Nos. 68302 (November 14, 2005) (Western Group), 66400 (October 14, 2003) (Northern Group), and 66849 (March 19, 2004) (Eastern Group).

4. On April 12, 2007, AWC filed an application with the Commission requesting permission to increase its authority to borrow under line of credit instruments from \$28,000,000 to \$32,000,000, and to extend the authorized borrowing period from May 31, 2007, to June 1, 2008.

1 AWC published notice of its application in this matter on April 16, 2007 in Tucson, Arizona, and
2 May 3, 2007, in Phoenix, Arizona.

3 5. On August 14, 2007, the Commission's Utilities Division ("Staff") filed a Staff Report
4 recommending approval of this application.

5 6. AWC established a \$9.0 million line of credit with Bank of America Arizona ("Bank
6 of America" or "Bank") in 1997, which was approved in Decision No. 60272 (July 2, 1997).
7 Decision No. 64996 (June 26, 2002) approved a loan to replace the 1997 loan agreement with a credit
8 line of \$11.5 million ("2002 Loan Agreement"). Decision No. 66104 (July 25, 2003) approved the
9 First Amendment to the 2002 Loan Agreement to increase the line of credit to \$15.0 million ("First
10 Amendment"). The First Amendment to the 2002 Loan Agreement expired on June 1, 2004. In
11 Decision No. 67274 (October 5, 2004), the Commission authorized the Second Amendment to the
12 2002 Loan Agreement ("Second Amendment"), which extended AWC's ability to draw on the
13 \$15,000,000 line of credit through August 1, 2005. On September 9, 2005, Decision No. 68118,
14 extended the expiration date to May 31, 2006, and increased the amount to \$21,000,000. On May 5,
15 2006, Decision No. 68694, authorized the issuance of \$25,000,000 of debt to repay existing advances
16 under its Line of Credit, retire its existing Series I bonds in the amount of \$400,000 and to fund or
17 reimburse monies already expended for various capital projects. On August 29, 2006, Decision No.
18 68918 authorized AWC to enter into a loan agreement with the Bank for a line of credit through June
19 1, 2007, not to exceed \$28,000,000 at an interest rate not to exceed the Bank's reference rate minus
20 0.25 percentage points.

21 7. Staff stated that AWC seeks a loan modification or a new loan agreement which will
22 increase its authority to borrow under the line of credit from \$28,000,000 to \$32,000,000. With this
23 request, Staff stated that AWC wishes to finance future construction including arsenic treatment
24 facilities; expanded water facilities; maintenance of reliable water service to its customers; and
25 reimbursement of monies actually expended from AWC's treasury for capital improvement to
26 improve its working capital position. AWC anticipates repaying the principal amounts owed through
27 issuance of long term debt and internally generated cash flows.

28 8. AWC wishes to obtain Commission approval for authority to extend its existing line

1 of credit with Bank of America to an amount not to exceed \$32.0 million and to extend the time
2 period from June 1, 2007 to June 1, 2008.

3 9. Staff stated that under the terms of the proposed \$32.0 million line of credit through
4 June 1, 2008, all advances will bear interest during each calendar month under one of three rates
5 depending on the timing and amount of the draws. Staff stated that AWC may choose between one
6 of three options: 1) the Bank's reference rate minus 0.25 percentage points; 2) a fixed rate to be
7 determined by the Bank; or 3) an interest rate computed using a formula based on the London
8 Interbank Offered Rate ("LIBOR")¹.

9 10. Staff stated that as of June 6, 2007, the rates under the three options were as follows:

10 Option 1: Reference Rate less 0.25%: 8.00%

11 Option 2: Fixed rate on amounts not less than \$500,000 for periods of 30, 60, 90, 120,
12 150 and 180 days:

- 13 a. 30 days = 6.32 percent
- 14 b. 60 days = 6.34 percent
- 15 c. 90 days = 6.36 percent
- 16 d. 120 days = 6.37 percent
- 17 e. 150 days = 6.37 percent
- 18 f. 180 days = 6.38 percent

19 Option 3: LIBOR formula rate on amounts not less than \$500,000 for periods of 30,
20 60, 90, 120, 150 and 180 days:

- 21 a. 30 days: $5.32000 + 1.0 = 6.32000$ percent
- 22 b. 60 days: $5.34000 + 1.0 = 6.34000$ percent
- 23 c. 90 days: $5.36000 + 1.0 = 6.36000$ percent
- 24 d. 120 days: $5.37000 + 1.0 = 6.37000$ percent
- 25 e. 150 days: $5.38000 + 1.0 = 6.38000$ percent
- 26 f. 180 days: $5.38475 + 1.0 = 6.38475$ percent

27 11. Staff Engineering reviewed the Company's construction budget for the year 2007, and
28 stated that without making any "used and useful" determination from which any conclusions should
be inferred for ratemaking or rate base purposes, Staff found the estimated project costs provided by
the Company to be reasonable and appropriate.

12. Staff performed an analysis of AWC's audited financial statements for the twelve-

¹ Staff explained that the formula is the LIBOR divided by the sum of 1.00 minus the Reserve Percentage, and that components of the formula are defined and discussed in detail in the 2002 Loan Agreement.

1 month period ended December 31, 2006. Staff stated that this application seeks to increase the line of
2 credit capacity from \$28,000,000 most recently authorized, of which \$8,450,000 was outstanding as
3 of April 30, 2007. The newly requested debt authorization represents a total potential increase of
4 \$23,550,000, of which AWC plans to use \$18,000,000 for its 2007 Construction Budget, leaving
5 \$5,550,000 available for working capital.

6 13. According to the Staff Report, as of December 31, 2006, AWC's capital structure
7 consisted of 6.5 percent short-term debt, 33.6 percent long-term debt, and 59.9 percent equity. A
8 draw down of the entire proposed \$32 million credit line would result in a pro forma capital structure
9 composed of 22.3 percent short-term debt, 27.9 percent long-term debt and 49.8 percent equity.

10 14. The Debt Service Coverage ("DSC") ratio represents the number of times internally
11 generated cash will cover required principal and interest payments on long-term debt. A DSC ratio
12 greater than 1.0 means that operating cash flow is sufficient to cover debt obligations. A DSC less
13 than 1.0 means that debt service obligations cannot be met from operations and that another source of
14 funds is needed to avoid default.

15 15. The Times Interest Earned Ratio ("TIER") represents the number of times earnings will
16 cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that
17 operating income is greater than interest expense. A TIER of less than 1.0 is not sustainable in the
18 long term but does not necessarily mean that debt obligations cannot be met in the short term.

19 16. Staff provided an analysis of AWC's actual financial information for the 12 months
20 ending December 31, 2006, which shows AWC's TIER as 11.11 and its DSC as 17.31.

21 17. Staff's analysis of AWC's pro forma impact of drawing down the proposed line of
22 credit in the amount of \$32 million shows AWC's TIER as 2.14 and its DSC as 3.34.

23 18. Staff stated that the pro forma TIER and DSC ratios for all existing, authorized long-
24 term debt and the requested long-term debt demonstrate that AWC has adequate cash flow to readily
25 meet its obligations.

26 19. Staff further indicated that AWC is in compliance with the Commission's regulations
27 and is in compliance with the requirements of the Safe Drinking Water Act.

28 20. Based on Staff's review and analysis, Staff concluded that the proposed financing is

1 for lawful purposes, within AWC's powers as a corporation, compatible with the public interest,
2 consistent with sound financial practices and will not impair its ability to provide public service.
3 Staff is recommending approval of the Company's application for authorization to enter into a loan
4 agreement with Bank of America for a line of credit through June 1, 2008, not to exceed \$32.0
5 million, at an interest rate not to exceed the Bank's reference rate minus 0.25 percentage points. Staff
6 further recommended authorizing AWC to engage in any transaction and to execute any documents
7 necessary to effectuate the authorizations granted.

8 21. Staff further recommended that the copies of executed loan documents be filed, within
9 90 days of the effective date of this Decision, with Docket Control, as a compliance item in this
10 docket.

11 22. Staff's recommendations are reasonable and should be adopted.

12 CONCLUSIONS OF LAW

13 1. AWC is a public service corporation within the meaning of Article XV of the Arizona
14 Constitution and A.R.S. §§ 40-281, 40-282, 40-301 and 302.

15 2. The Commission has jurisdiction over AWC and the subject matter of the application.
16 Notice of the application was given in accordance with the law.

17 3. Staff's recommendations are reasonable and should be adopted.

18 4. The financing approved herein is for lawful purposes within AWC's corporate powers,
19 is compatible with the public interest, with sound financial practices, and with the proper
20 performance by AWC of service as a public service corporation, and will not impair AWC's ability to
21 perform that service.

22 5. The financing approved herein is for the purposes stated in the application and is
23 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
24 chargeable to operating expenses or to income.

25 ORDER

26 IT IS THEREFORE ORDERED that the application of Arizona Water Company for authority
27 to enter into a loan agreement with Bank of America Arizona for a line of credit through June 1,
28

1 2008, not to exceed \$32.0 million, at an interest rate not to exceed the Bank's reference rate minus
2 0.25 percentage points, shall be, and hereby is, approved.

3 IT IS FURTHER ORDERED that such authority is expressly contingent on Arizona Water
4 Company's use of the proceeds for the purposes set forth in its application.

5 IT IS FURTHER ORDERED that Arizona Water Company is hereby authorized to engage in
6 any transactions and execute any documents necessary to effectuate the authorization granted
7 hereinabove.

8 IT IS FURTHER ORDERED that Arizona Water Company shall file with Docket Control,
9 within 90 days of the effective date of this Decision, as a compliance item in this docket, copies of all
10 executed documents associated with the financing authorized herein.

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IT IS FURTHER ORDERED that the financing approved herein shall not guarantee or imply any specific treatment of any capital additions for rate base or rate making purposes.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

Laurel W. Hession
CHAIRMAN

William M. Miller
COMMISSIONER

Jeffrey M. Hatch-Deller
COMMISSIONER

Phil M. Wynn
COMMISSIONER

Samuel J. Quinn
COMMISSIONER

IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 27th day of September, 2007.

Dean S. Miller
DEAN S. MILLER
INTERIM EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

MES:db

1 SERVICE LIST FOR: ARIZONA WATER COMPANY

2 DOCKET NO.: W-01445A-07-0238

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